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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #7797-82
27 September 1982

MEMORANDUM FOR THE RECORD

FROM : Assistant National Intelligence Officer for USSR-EE

SUBJECT: IG-IEP Meeting on Polish Issues

1. [redacted] (EURA) and I attended. The meeting was chaired by Treasury (Marc Leland) and was a follow-on to the 20 September IG chaired by State and devoted to the proposed private aid initiative. Leland explained that discussion of this initiative had been switched to this forum in order that it could be considered in the broader context of US policy toward Poland. 25X1

2. Leland reported that almost all participants at the last meeting of government-creditors reported that they had not been fully paid on the rescheduled 1981 Polish debt. They will meet again in October to establish with more precision what the Polish arrears are. It is evident that Poland is giving priority to repaying private banks.

3. The status of the Polish initiative was effectively changed at this meeting. At the 20 September meeting the NSC evidently hoped to be able to make minor adjustments and have the initiative approved so that the President could announce it on 13 October -- two days before his meeting with Archbishop Glemp.

4. This schedule may still be met but Treasury will now write a broader options paper, including variations on the proposed initiative as well as pros and cons, for consideration at a SIG-IEP on Tuesday, 28 September, and then at an NSC on Thursday, 30 September. An indication of Agency feelings on the issue came when the OSD rep (Steve Bryan), who behaved in an obnoxious manner throughout, called for a straw vote. Of the agencies voting, OSD was strongly opposed, NSC and USDA strongly in favor, and State, Commerce, and the Vice

This memorandum is classified SECRET.

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President's Office generally in favor. Treasury did not vote but has given every indication that it is opposed.

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Attachment:
  Agenda for IG-IEP

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NIC/A/NIO/USSR-EE [redacted] 25X1

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September 22, 1982

DDI- 7649-82

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MEMORANDUM FOR	State	– Mr. L. Paul Bremer, III
	OPD	– Mr. Les Denend
	NSC	– Mr. Michael O. Wheeler
	Agriculture	– Mr. Raymond Lett
	CIA	– 25X1
	Justice	– Mr. Jonathan C. Rose, Esq.
	Commerce	– Mrs. Helen Robbins
	Defense	– Col. John Stanford
	USTR	– Mr. Dennis Whitfield
	CEA	– Mr. William Niskanen
	OMB	– Mr. Alton Keel

Subject: Interdepartmental Group on International Economic Policy (IG-IEP)

There will be a meeting of the IG on Thursday, September 23, 1982, 4:00PM in Room 4125 on Poland. Agenda items are: the Polish debt situation, proposal for private sector initiative, and review of implementation of Polish sanctions. Papers on the first two items are attached.

David E. Pickford
David E. Pickford
Executive Secretary

Attachments

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22 SEP 1982

Polish Debt Situation

Background

Beginning in the early 1970s, the Poles financed a large portion of their economic growth by borrowing from the West, enjoying relatively easy access to Western capital markets. As their development plans began to falter, they became less able to service their debt.

In 1972, Poland's gross hard currency debt totaled $1.6 billion. Its debt service, consisting of $200 million of principal and $74 million of interest, amounted to only 15% of its foreign exchange earnings from exports of goods and services to non-Communist countries. Poland's imports from non-Communist countries exceeded its exports to these countries by $1.3-$3.3 billion annually between 1973 and 1979 as the authorities continued to pursue their development program. By 1979, Poland's external hard currency debt stood at $21 billion and its debt service ($3.6 billion in principal and $2.2 billion in interest payments) equalled 92% of its hard currency export earnings. By mid-year 1981, Poland's hard currency debt stood at approximately $26 billion. It owed roughly $20 billion of this to 16 Western countries, $11 billion to official creditors or guaranteed by them, including $1.9 billion to the U.S. Government; and $9 billion of unguaranteed debt to private banks, including $1.3 billion to U.S. banks.

Developments in 1981

At the beginning of 1981, it was estimated that Poland would require some $11 billion in hard currency financing to cover its projected trade deficit for 1981 and to service its debt. Poland was clearly not in a position to raise such sums and on March 26, 1981, Poland notified its creditors that it would no longer be able to guarantee payment of its external debts.

The governments and private banks responded to the Poles by agreeing to enter into debt rescheduling negotiations. Separate debt rescheduling exercises were organized by the official and private creditors. Fifteen official creditor nations (later increased to 16 with the addition of Spain) concluded negotiations with the Government of Poland and a multilateral debt rescheduling agreement was signed in Paris April 27, 1981. This agreement served as an umbrella agreement for subsequent government-to-government agreements to reschedule 90% of Poland's debt service obligations to these creditors of both the principal and interest falling due during the last three-quarters of 1981. These obligations, totaling $2.4 billion, are to be repaid during a

4-year period beginning in 1985. Interest on the rescheduled interest is to be charged during the grace period, 1981-1985. The U.S.-Poland government-to-government for rescheduling $380 million agreement was signed on August 27, 1981.

Western banks, moving on a parallel track, established a consortium to negotiate a debt rescheduling agreement with the Polish Government by September. The consortium reached an ad referendum agreement with the Poles for rescheduling 95% of the principal ($2.3 billion) of their debt falling due during April-December 1981, over 8 years, including a 4-year grace period.

The consortium of Western banks set a pre-condition for signing the document, namely that Poland pay all of the 1981 interest-an estimated $700 million-which fell due in the last 9 months of 1981. The Poles were unable to fulfill this condition until May 1982.

The interest rate charged by the banks on the rescheduled debt was 1 3/4 percent above LIBOR. These interest charges are to be paid over the life of the agreement, including during the grace period. The banks also levied a 1% signature fee -- $27 million -- which they collected when the agreement was signed.

Payment of the 5 percent of principal -- about $200 million -- that was originally due in 1981 was subsequently postponed until 1982 when it was to be paid in three equal installments beginning in May.

Developments in 1982

A. Official Creditors

On December 13, 1981, the Government of Poland declared a state of martial law. In January 1982 Poland's official creditors decided not to enter into discussions to reschedule Poland's 1982 debt servicing obligations due them until the GOP: 1) terminated martial law; 2) released the prisioners, and 3) entered into substantative negotiations with the Church and Solidarity. They reaffirmed this agreement in August after reviewing the political gestures announced by General Jarulezski on July 22, 1982 celebrating the 35th anniversary of the installation of the communist reqime in Poland. Notwithstanding their reaffirmation of the three political preconditions for rescheduling discussions, European Governments indicated their willingness to proceed with technical talks on Poland's debt.

On September 23, 1982 Poland's official creditors discussed Poland's performance under the terms of the 1981 rescheduling agreement. The Polish Government has not completely fulfilled its obligations under that agreement. The U.S. Government, for example, has received only $16 million of the $42 million that was not rescheduled and therefore due in 1981. Other governments have also not fully collected the nonrescheduled 10% of 1981's debt service obligations due them. For calendar year 1982 Polish debt service obligations to the U.S. Government total an estimated $340 million.

B. Western Banks

The Poles are current on their obligations to western banks under the terms of the 1981 rescheduling agreement. They have 1) made all the 1981 interest and signature fee payments necessary to implement the agreement, 2) paid two of the three installments on the 5 percent of principal that was postponed into 1982 when they came due (the third installment is due in November) and 3) are apparently current on the interest payments on the rescheduled debt. The western banks and the GOP have also agreed to terms on a rescheduling of Poland's 1982 private debt service obligations. The rescheduling terms are essentually the same as in the 1981 agreement: 1) 95 percent of principal -- approximately $2.2 billion -- is to be rescheduled for 7 1/2 years including a four year grace period; 2) the remaining 5 percent is to be paid in two installments in 1983. 1982 interest payments falling due between a) January and April 1982 is to be paid on October 20, 1982, b) May and August 1982 is to be paid on December 20, 1982 and (c) September and December 1982 is due March 20, 1983. There is a 1 percent signature fee and the interest charge on the rescheduling is again 1 3/4 percent above LIBOR.

The bank and the Poles also arrived at a separate agreement regarding the provision of a trade facility. Western banks will make half of the 1982 interest they collect available to the Poles in the form of 6 month loans to finance exports to Poland from the banks' home country. As these loans are repaid they can be rolled over. An interest rate of 1 1/2 percent above LIBOR is charged on these new loans. This trade facility will expire in one year but can be renewed for a second and again for a third year.

The signing deadline for these two agreements has been set for October 20, 1982.

The above agreements only cover the non-guaranteed portion of Poland's debt to western banks. U.S. banks have filed claims and collected $247 million from Commodity Credit Corportation as of September 21, 1982.

C. Kasten Amendment

The Urgent Supplemental Appropriations Act (P.L. 92-216) enacted July 18, 1982 contained an amendment (Section 205) introduced by Senator Kasten, which prohibits the Commodity Credit

Corporation (CCC) or any other U.S. agency for the remainder of fiscal year 1982 from paying funds to cover guaranteed or insured loans to Poland unless (1) Poland is declared in default or (2) The President reports monthly to the Congress that such payments serve the national interest of the United States. The President delegated the reporting responsibility to the Secretary of State, who, after consultation with the heads of interested Executive agencies, has filed reports for July and August. The amendment expires September 30, 1982.

Discussion Paper on Private Sector

Assistance to Poland

The attached draft executive order and background paper address the possibility of establishing a Presidential Commission on Private Sector Assistance to Poland, primarily in the agricultural sector. That draft indicates that the Commission shall assess the current condition and needs of the Polish private agricultural sector, and devise and implement an economic and technical private sector assistance program. Funding will come from private donations, use of CCC-owned zlotys and possibly dollar appropriations.

This proposal raises a number of questions and options for discussion:

-- A recent CIA study (Polish Agriculture: Policy and Prospects, September 1982) indicates that the major problems facing the private agricultural sector in Poland are the need for: substantial investment in agricultural equipment, seed and fertilizer, an increase in financial returns to the farmer, and further reduction/elimination of unfavorable State procurement prices.

- What are the major short and medium term agricultural objectives of the proposal?
- Will the proposal be able to make any impact on these major problem areas by itself or should we link our proposal to the Polish Government adopting significant reforms and providing resources to the private agricultural sector?

-- We understand that the proposal is planned to be announced by the President on October 13, 1982.

- Do we want to tie the announcement to some positive development in Poland, or is there a compelling argument for proceeding on October 13, 1982?
- Do we want to involve the private sectors of other western countries? Do we want Secretary Shultz to raise this proposal in his bilateral discussions with the Europeans next week? Should there be a "quid pro quo" from the Europeans in return for our effort?

- Should this proposal stand on its own or should it be seen as an alternative to the Church's proposal for a $2 billion "Polish Recovery Plan"? How do the two relate to each other?

-- Funding needs and sources are unclear.

- How will funding be arranged for the administrative dollar expenses of the Commission's operations in the United States as well as travel and per diem costs for the Commission?

- Do we plan to use all of the CCC-owned zlotys or will some be held in reserve? Is there concrete evidence that the Poles would agree to use of zlotys for this purpose?

- At a time of very stringent budget operations, do we want to suggest that we may have some flexibility on dollar appropriations?

- What are the various institutions who could accept and efficiently distribute private donations?

- How could we insure that any hard currency donations did indeed wind up in the hands of Polish farmers and not the Polish regime? Would the regime permit this?

Attachments:

Draft Executive Order
Draft Cable

PRESIDENTIAL COMMISSION ON PRIVATE SECTOR ASSISTANCE TO POLAND

By the authority vested in me as President by the Constitution and statutes of the United States of America, and in order to assist and improve the well-being of the Polish people who have endured many hardships, it is hereby ordered as follows:

Section 1. Establishment. (a) There is established the Presidential Commission on Private Sector Assistance to Poland, which shall be composed of not more than twelve members from the private sector appointed by the President.

(b) The President shall designate a Chairman and Vice Chairman from among the members of the Commission.

Section 2. Functions. (a) The Commission shall assess the current condition and needs of the Polish private agricultural sector; and, devise and implement an economic and technical private sector assistance program to bolster the Polish private agricultural sector.

(b) This private sector assistance program shall include plans for:

(1) generating public support for this private sector assistance program;

(2) coordinating the United States private sector program with similar programs undertaken by our European allies; and

(3) submitting a quarterly progress report to the President.

 DRAFT

Section 3. Administrative Provisions. (a) The Secretary of Agriculture shall, to the extend permitted by law and subject to the availability of funds, provide the Commission with such administrative services, funds, facilities, staff and other support as may be necessary for the effective performance of its functions.

(b) Members of the Commission shall serve without compensation. While engaged in the work of the Commission, members may receive travel expenses, including per diem in lieu of subsistence, as authorized by law (5 U.S.C. 5701-5707).

Section 4. General Provisions. (a) The Commission is authorized to conduct meetings and utilize such other procedures as it may deem necessary, and under such conditions it deems appropriate, for the effective performance of its functions.

(b) The Commission shall terminate one year from the date of this Order.

THE WHITE HOUSE

EXECUTIVE ORDER

DRAFT

USE OF CERTAIN POLISH CURRENCIES

Section . Delegations of Authority. (a) The functions vested in the President by section 709 of the International Security and Development Act of 1981 (Public Law 97-113) with regard to programs in agriculture, including activities to assist the private agricultural sector in Poland, are delegated to the Secretary of Agriculture.

(b) In carrying out these functions the Secretary of Agriculture shall coordinate his activities with those of the Presidential Commission on Private Sector Assistance to Poland, make available Polish currencies received by the United States from the April 1981 and October 1981 sale of United States Government-held dairy products to Poland in such amounts as designated by the President in advance to United States private sector groups in support of activities of common benefit to the people of the United States and Poland which assist in meeting the objectives of the private sector assistance program.

I. Background: The United States Government has proposed an initiative whereby the U.S. private sector would render assistance to the Polish private sector -- with primary emphasis on agriculture. The initiative was conceived prior to the Polish Church's recommendation for a five-year, $2.02 billion "Poland Recovery Plan" to aid the private sector, but coincides with the Church's proposals. This initiative is perceived as a humanitarian "people-to-people" effort, consistent with the Administration's policy toward Poland. Its purposes include: a) strengthening the Polish private sector which has suffered from years of inconsistent and arbitrary government interference and lack of suitable investment, (b) sending a signal of moderation to the Polish government without compromising the integrity of our sanctions, (c) promoting in the long term a more moderate domestic Polish policy as a result of strengthened free market forces.

-- As this is a private sector initiative, the official involvement of the U.S. Government will be kept to a minimum.

-- This initiative will not nullify but rather support the Allied declaration of January 11, 1982, and the three criteria it endorsed.

-- No detailed blueprint of the initiative can or should be prepared at this time for the private sector organizations will be responsible for its preparation and implementation.

-- The funding sources are subject to possible change per relevant discussions with Polish authorities. The U.S. is prepared to manifest some flexibility; however, the Polish government must be prepared to accept the general framework of the initiative.

II. Establishment of Commission: The United States Government is establishing a Presidential Commission to spearhead the private sector assistance program for Poland. The Commission shall be composed of no more than 12 members to be appointed by the President. The 12 members will be drawn from the Polish-American community, labor, academia, the Church, farm associations, agricultural industries. One Commission member will serve as a liaison to the European Community. Functions of the Commission shall include a) assessing the current condition and needs of the Polish private agricultural sector, b) devising and implementing an economic and technical assistance program to bolster the Polish private sector -- with emphasis on agriculture, c) generating public support for the private sector assistance initiative, d) coordinating the U.S. program with similar initiatives undertaken by our allies and/or developing a program jointly with them, and e) providing a quarterly progress report to the President. The Commission will conduct regular meetings and utilize such other procedures as it may deem necessary for the effective performance of its functions.

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Presidential commission on Private Sector Assistance to Poland

1. S - entire text.

2. background: the president is planning to announce the formation of a Presidential commission on private sector assistance to Poland to stimulate assistance to the Polish private sector--with primary emphasis on agriculture. The initiative was conceived before the Polish Church's proposal for a five-year, 2.02 billion dollar "poland recovery plan" to aid the private sector, but does not conflict with the church's proposals. This White House initiative is perceived as a humanitarian "people-to-people" effort, consistent with the administration's policy toward poland. It foresees minimal Polish government involvement. Its purposes include: a] strengthening the Polish private sector which has suffered from years of inconsistent and arbitrary government interference and lack of suitable investment, b] sending a signal of moderation to the polish government without compromising the integrity of our sanctions, c] promoting a more moderate domestic Polish policy as a result of strengthened free market forces.

3. Official USG involvement will be kept to a minimum.

-- this initiative will not nullify but rather support the allied declaration of january 11, 1982 and the three criteria it endorsed.

-- no detailed blueprint of the initiative can or should be prepared at this time, since private sector organizations will be responsible for its preparation and implementation.

-- Since some of the funding will be drawn from zloties owned by the commodity credit corporation whose expendture is subject to Polish government approval, the amount of money available from this source cannot now be determined. The us is prepared to manifest some flexibility; however, the polish government will have to be prepared to accept the general framework of the initiative.

4. establishment of commission: The commission shall be composed of no more than 12 members to be appointed by the President. the 12 members will be drawn from the polish-american community, labor, academia, the church, farm associations, agricultural industries. one commission member will serve as a liaison to the

european community. functions of the commission shall include a] assessing the current condition and needs of the Polish private agricultural sector, b] devising and implementing an economic and technical assistance program to bolster the Polish private sector--with emphasis on agriculture, c] generating public support for the private sector assistance initiative, d] coordinating the u.s. program with similar initiatives undertaken by our allies and/or developing a program jointly with them, and e] providing a quarterly progress report to the president. the commission will conduct regular meetings and utilize such other procedures as it may deem necessary for the effective performance of its functions.

5. funding: funding for the initiative will be derived from two sources:

-- private: the american private sector is expected to make donations in support of this effort. The commission will designate an organization to conduct a fund raising drive and to receive donations.

-- public: the united states department of agriculture will provide zloty funds [up to dlrs 70 million in ccc-owned zlotys] for in-country use. after the commission has devised a private sector assistance program, and has determined how much assistance is needed, if any, the us government will evaluate the program and will consider rendering additional government funds [perhaps a supplemental] commensurate with the needs of the program and as may be necessary for its successful and effective implementation.

6. presidential statement: the president will announce the establishment of the commission on october 13.

7. for bonn. embassy should seek appointment with appropriate frg officials making points outlined above. you should also attempt to draw out your interlocutors on plans frg has for increased humanitarian aid, including their evaluation of polish episcopate proposals. You should emphasize that while the U.S. is not prepared to support a program on the scale of that put forth by the Polish bishops, we think the President's initiative is compatible in concept. In any case, the Commission will be consulting with the FRG on ways we might best coordinate our efforts.we would hope frg would be in a position to endorse president's proposal when it is made public.

8. for warsaw: ambassador may draw on above in his meeting with archbishop glemp. Ambassador should also attempt to draw Glemp out on extent of Polish church's involvement in Polish Bishops' proposal as well as Polish government's attitude toward it. Emphasizing that Presidential initiative on private sector assistance to Poland is still in preliminary stage, Ambassador should also explore Church's willingness to become involved in administering it as well as Glemp's reading of likely Polish government attitude toward it.